



MINORITY STAFF
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES
JUNE 2004

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The Impact of Increased Gasoline Prices in the Boston Area

BACKGROUND

In recent weeks, gasoline prices have increased dramatically, reaching record levels in May 2004.¹ Although the Bush Administration had previously indicated that prices would drop over the summer,² experts are now anticipating that these high prices will continue for months.³

These high gasoline prices have significant impacts on family budgets — and on the economy as a whole. Increased expenditures for gasoline reduce families' discretionary income and can result in inflation in the price of consumer goods. On May 17, 2004, Federal Reserve Chairman Alan Greenspan indicated that the “dramatic” increase in oil and gasoline prices is “an economic event that can significantly affect the long-term path of the US economy.”⁴

At the request of Rep. John F. Tierney and Rep. Edward J. Markey, this analysis examines the impact of the increase in gasoline prices in the Boston area. It finds that the increased costs could force motorists in the Boston area to pay approximately \$234 million more for gasoline in the summer driving season than they did last summer. For the average family in the Boston area, the increase in gasoline prices could increase fuel costs by approximately \$160 between Memorial Day and Labor Day.

METHODOLOGY

This analysis estimates the increased amount that consumers will spend on gasoline between Memorial Day and Labor Day due to rising gasoline costs. It is based upon (1) data from the American Automobile Association that tracks changes in fuel prices and (2) data from the

¹ *Price of Gas Hits 23-Year High*, Washington Post (May 15, 2004).

² Testimony of Energy Secretary Spencer Abraham before the House Committee on Energy and Commerce (April 1, 2004).

³ Energy Information Administration, *Short Term Energy Outlook* (May 2004) (online at <http://www.eia.doe.gov/emeu/steo/pub/contents.html>).

⁴ *Greenspan Warns Dramatic Rise in Oil Price Will Dent U.S. Demand*, Financial Times (May 18, 2004).

Department of Transportation's Federal Highway Administration that tracks fuel usage and driving patterns at the state and local level. This data is used to estimate total gasoline usage for the state and for the Boston area. Total increased spending on gasoline is determined by multiplying the increase in gasoline prices by the estimated amount of gasoline that will be used.

FINDINGS

A. Gasoline Prices in the Boston Area

In recent months, gasoline prices have increased rapidly in Massachusetts and in the Boston area. In June 2004, the average price of a gallon of regular gas in Massachusetts was \$2.09.⁵ Compared to prices one year ago, this represents an increase of 57 cents per gallon.⁶ Prices have increased by a similar amount in the Boston area. On May 26, 2004, the average price of a gallon of regular gasoline in the Boston area was \$2.37, an increase of 57 cents per gallon compared to prices one year ago.⁷ The U.S. Energy Information Administration has projected that gas prices (and the difference in gas prices from 2003 to 2004) will remain at high levels through the summer.⁸

B. The Impact of Increased Gasoline Prices in the Boston Area

In 2004, drivers in Massachusetts will purchase approximately three billion gallons of gasoline, almost 250 million gallons per month.⁹ Assuming that gasoline prices remain 57 cents per gallon higher this summer than in 2003, increased gasoline prices would cost Massachusetts drivers an additional \$143 million monthly. Over the three-month summer driving season from Memorial Day through Labor Day, the total increased cost for drivers in Massachusetts would be \$428 million.

An estimated 55% of all gasoline used in Massachusetts is used in the Boston area.¹⁰ This means that Boston drivers purchase approximately 137 million gallons of gasoline monthly. Assuming gas prices in the region remain 57 cents per gallon higher this summer than last year, increased gasoline prices will cost Boston drivers an additional \$78 million monthly. Over the three-

⁵ AAA, *Daily Fuel Gauge Report* (May 2004).

⁶ *Id.*

⁷ *Id.*

⁸ Energy Information Administration, *supra* note 3.

⁹ The latest statewide data available from the Federal Highway Administration is for 2002. FHWA, *Monthly Motor Fuel Use Reported by States* (Dec. 2002). This data shows that drivers in Massachusetts purchased 2.9 billion gallons of gasoline in 2002. According to the Energy Information Administration, gasoline use has increased by approximately 2% annually, or 4% between 2002 and 2004. A 4% increase in gasoline use in Massachusetts would result in Massachusetts drivers using 3.0 billion gallons of gasoline. Energy Information Administration, *Short Term Energy Outlook* (May 2004).

¹⁰ Based on Federal Highway Administration estimates that 55% of all vehicle miles traveled in Massachusetts are in the Boston area. This analysis assumes that gasoline use is in direct proportion to vehicle miles traveled. Federal Highway Administration, *Highway Statistics, 2002* (2004).

month summer driving season from Memorial Day through Labor Day, the total increased cost for Boston drivers would be approximately \$234 million.

C. Individual Costs of Increased Gasoline Prices in Boston

There are 4.7 million registered drivers in Massachusetts.¹¹ On a per-driver basis, the increased gasoline prices will cost the average driver in Massachusetts approximately \$90 over the summer months. An average two-car family in Massachusetts will spend an additional \$180 on gasoline during the summer driving season.

There are an estimated 2.8 million drivers in the Boston area.¹² On a per-driver basis, the increased gasoline prices will cost the average driver in Boston over \$80 over the summer months. An average two-car family in the Boston area will spend an additional \$160 on gasoline during the summer driving season.

CONCLUSION

This analysis finds that increasing gasoline costs will have a significant impact on drivers in the Boston area. In the aggregate, increased gasoline prices could cost Boston drivers approximately \$234 million from Memorial Day to Labor Day, with the average two-car family in the area paying \$160 or more extra for gasoline during this period.

¹¹ *Id.*

¹² Federal Highway Administration data show that statewide, there are 729 registered drivers for every 1,000 individuals in Massachusetts. *Id.* Assuming this ratio applies to the population of the Boston area, which is 3.9 million, there would be 2.8 million drivers in the Boston area.